

C O N F I D E N T I A L

Approved For Release 2001/04/09 : CIA-RDP79-01577A000100040002-5

13 September 1974

MEMORANDUM FOR: Executive Board Members

SUBJECT : OC Executive Board Agenda, 1300 Hours,
17 September 1974, OC Conference Room

A. BACKGROUND

1. The D/CO has been tasked by higher authority to study and make recommendations on the following:

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a. Development of proposed formulas for charging [REDACTED] for communications services performed for them by this Agency.

25X1A

[REDACTED]

25X1A

25X1A

2. Chief, OC-O has the internal OC responsibility for Item 1.a., and Chief, Services is responsible for Item 1.b. OC-P&B will assist in costing the alternatives which may be developed.

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3. Mr. [REDACTED] is the OC member of the [REDACTED] Administrative Review Group which was appointed by the DD/A to consider seven questions involving relationships [REDACTED]

The Review Group will coordinate for the DD/A the various DD/A component responses to several tasks levied by the DCI and Mr. [REDACTED] of OC-S will serve with the committee after he comes on board. Two of the tasks under the purview of the Review Group are listed in paragraph 1.a. and b. The others are principally under the cognizance of OF and the SSA/DDA.

4. In addition to the tasks in 1.a. and 1.b., there is an off-shoot of Item 1.b. in that the DD/A desires that the D/CO address the "non-financial aspects" of the cover question. Chief, Services has primary OC responsibility for this phase of the study. The DD/A states "there could well be, however, other operational or administrative matters involved in such a conversion, and these should be developed at this time."

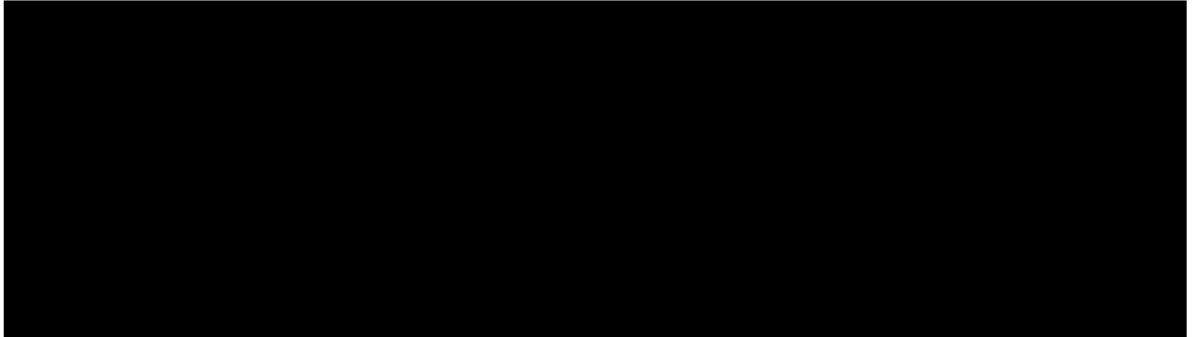
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B. ITEMS FOR DISCUSSION

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c. If alternative b. is favored, what basis should be used for charges? Actual count of the number of messages? Job sheets maintained by operators? Random sampling of traffic to determine costs? Other?

d. Should we try to head off the "charging" approach by advocating an "attributing system"? (This could be similar to OJCS costs system.)

e. Other approaches?

2. Cover

a. What are the acceptable (realistic) forms of cover for OC activities?

b. Can we defend our alternatives as the only viable ones?

c. Guidance for OC committee members working on this problem (paragraphs 1.b. and 4 above). What are the key non-financial operational or administrative matters to be considered?

C. SCHEDULES

1. Interim report to the Administrative Review Group due on each of the indicated study subjects as follows:

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<u>Item</u>	<u>Date</u>
a. Charging [REDACTED]	27 September 1974
b. Cover economies	7 October 1974
c. Other cover considerations	7 October 1974

2. The next meeting of the Administrative Review Group is Tuesday, 1 October 1974.

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[REDACTED]
Secretary

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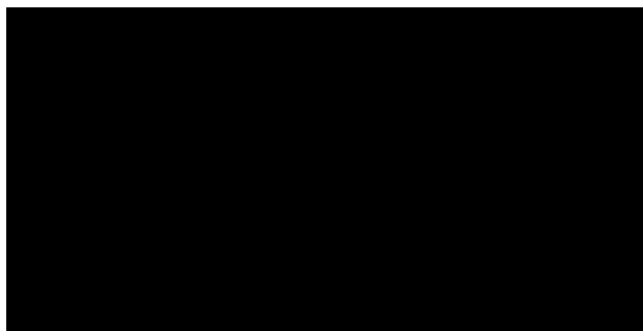
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Minutes of Executive
Board Meeting Number Nine
1330 Hours, 17 September 1974

25X1A 1. The meeting convened with the following members present:



25X1A 2. Cost Attribution System for OC Provided Services

25X1A Mr. [REDACTED] opened the discussion by reviewing the additional guidance received on the subject from the DD/A during the 16 September MBO meeting. The DD/A advised that a 31 December 1974 date has been established for presenting to the DCI the costing methodology proposed by the DD/A offices; and that the DCI is interested in actually charging Operating Components for our services. The DD/A stated that there is considerable feeling against actual charging and that he hopes to convince the DCI that cost attributing is sufficient.

25X1A In regard to OC's problem of methodology, the consensus at the DD/A level is that OC should proceed on the basis of non-attribution of the "backbone" or "core costs" associated with providing services and attribute only those costs clearly identifiable with the customers. Mr. [REDACTED] stated that his interpretation of the guidance received is that OC has a great deal of latitude in defining a methodology.

25X1A Mr. [REDACTED] then presented a concept for a methodology that would meet the requirement as it is presently defined. The concept consists of breaking down the OC budget by subtracting clearly defined costs attributable to [REDACTED] (3%) and a controversial category referred to as "overhead" (24%). "Overhead" would contain costs of Headquarters Staffs, Area Headquarters operation, and new equipment plant such as ARS, SKYLINK, network modernization, etc. The remaining 73% of the OC budget would

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then represent Agency customer costs which can be broken down into the six categories of service and attributed to operating components by reasonably straightforward factoring.

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On the subject of the "overhead" category, Mr. [REDACTED] stated that 24% would result in unfavorable upper management comparisons with typical industry rates. If this category is to be defined as "overhead" then equipment costs should be removed and reflected elsewhere.

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Mr. [REDACTED] stated that he feels a substantial portion of the budget should be reflected as "backbone" costs to avoid mis-leading Agency managers on the economics to be gained from reductions in field stations or traffic volumes.

General group discussion led to a consensus that the "overhead" category would more aptly be defined as the "infrastructure" costs of the Office and that costs associated with our relay stations should be added to those of the Headquarters, Area Headquarters, and new systems costs. The "infrastructure" cost would then hopefully, constitute 40-60% of the OC budget.

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3. Crypto Equipment Procurement

Mr. [REDACTED] discussed the pressing OC decision regarding whether or not to buy another 250 KW-7's at a cost of about \$1 million. While OC has been engaged in negotiating a new KW-7 procurement with NSA, OC-O has recommended a concept of

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[REDACTED]
KW-7's. Preliminary OC-E estimates indicate that there is an even cost trade-off between the two techniques when considering future SKYLINK terminals. There would be an additional cost of about \$25K per terminal to retrofit existing SKYLINK installations. The retrofit program would be required to free KW-7's for other requirements and would cost approximately \$500K.

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Changing to the "red-mux" approach will require additional KG-13's. Mr. [REDACTED] stated that NSA has located 400 KG-13's available for transfer. They are now investigating the procedural problems associated with transferring them to the Agency.

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Mr. [REDACTED] to proceed with development of the "red-mux" concept. Final decisions on implementation will be contingent upon the cost of obtaining the additional KG-13's.

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[REDACTED]

Secretary

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CONCURRENCE:

[REDACTED]

Director of Communications

18 SEP 1974

Date

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